

MAGYAR TELEKOM GROUP

Q3 2015 RESULTS PRESENTATION

NOVEMBER 4, 2015



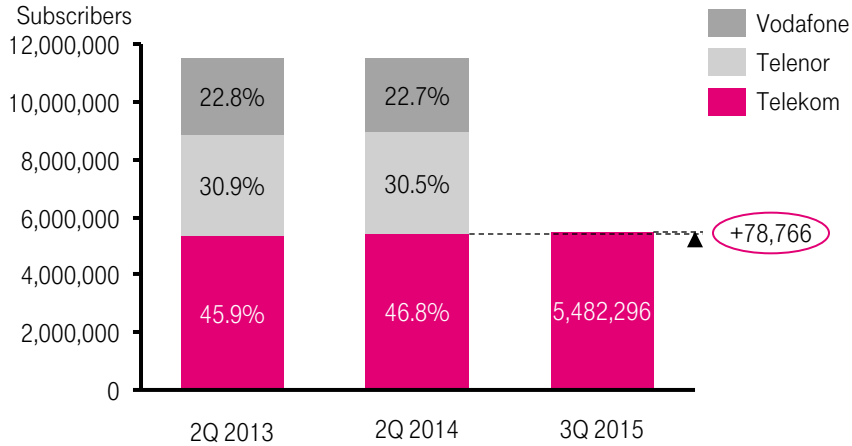
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STRATEGIC HIGHLIGHTS

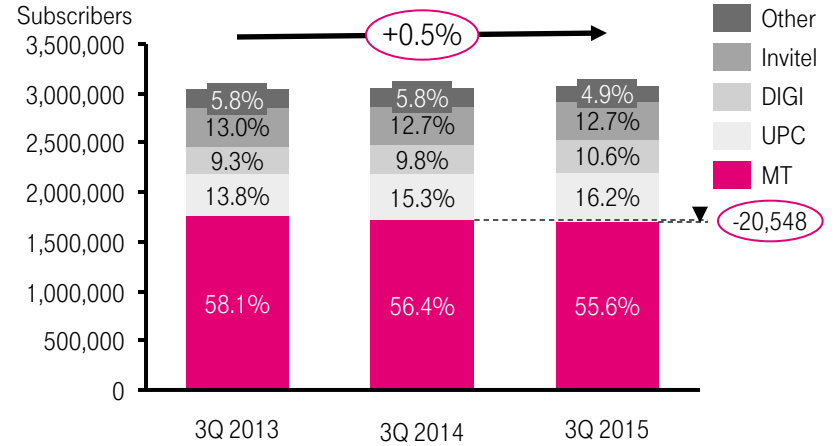
GROUP	TURNAROUND	<ul style="list-style-type: none">▪ After turning around revenue and EBITDA in recent years, we have managed to return to positive Free Cash Flow generation as the basis for the resumption of dividend payments
	OPERATION	<ul style="list-style-type: none">▪ Consolidated our market positions through an integrated T brand and network developments▪ Sustained focus on cost efficiency by product and process simplification and online
HUNGARY	TELCO	<ul style="list-style-type: none">▪ Underlying mobile growth thanks to strong 4G push but wholesale revenue loss due to MTR cut▪ Organic growth in both fixed broadband and TV, ex-acquisition effect of GTS Hungary▪ Introduced quad-play offer, Magenta1 to maximize share of wallet in household spending▪ Over 95% 4G population coverage and significant fixed line network development program
	ENERGY	<ul style="list-style-type: none">▪ Revenue growth in B2B segment ahead of preparing to set up joint venture
	SI/IT	<ul style="list-style-type: none">▪ Year-to-date revenue turnaround in SI/IT at enterprise segment by T-Systems
INT'L	MACEDONIA	<ul style="list-style-type: none">▪ Rebranding to one integrated Telekom brand and launched quad-play offer, called Magenta1▪ VIP/One merger has created a strong integrated competitor
	MONTENEGRO	<ul style="list-style-type: none">▪ Introduced one billing to enhance integrated operator image and strive for efficiency▪ Intense competition in mobile and fixed line driven by regulatory pressures

MARKET POSITION IN HUNGARY

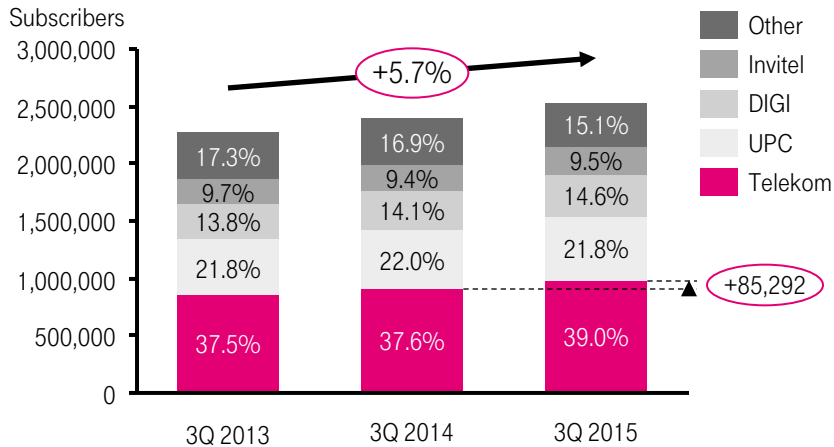
Total mobile market*



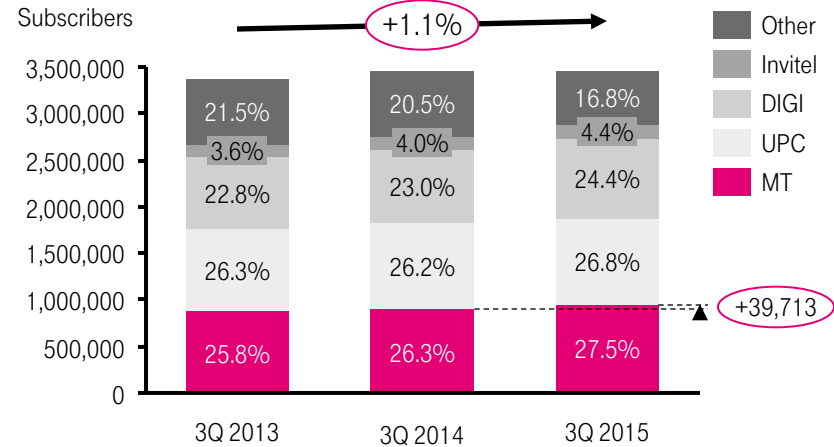
Fixed voice market**



Fixed broadband market**



TV market**



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* based on the total SIMs, data available only until June 2014 by National Media and Infocommunications Authority (NMAIAH) due to definition debate

** based on the total fixed voice / BB / pay TV market estimated by the NMAIAH

FINANCIAL HIGHLIGHTS AND TARGETS

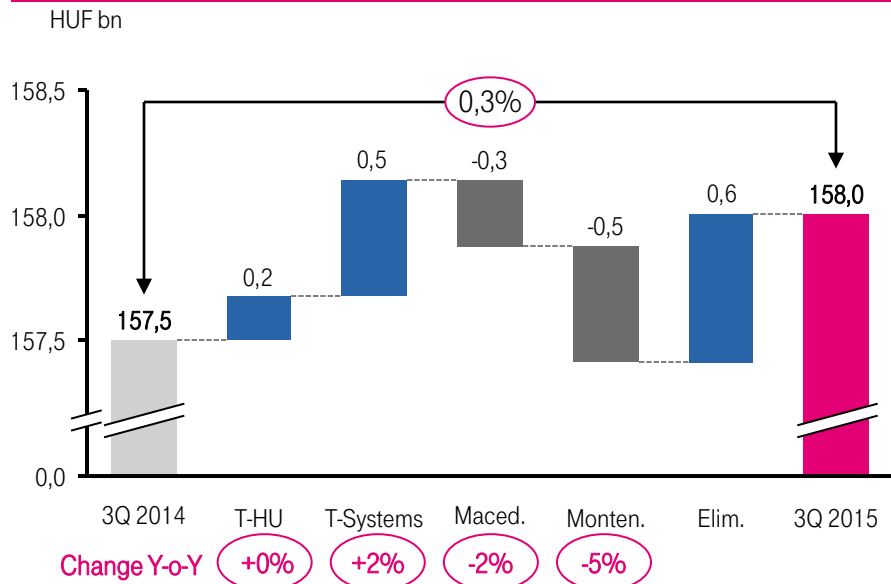
	9M 2015 RESULTS	2015 TARGETS	2017 TARGETS
REVENUE	+2.7%	roughly stable	roughly stable excluding energy compared to 2014
	<ul style="list-style-type: none"> Group wide mobile data growth due to 4G push offset by Hungarian MTR cuts Revenue growth in fixed line Increased SI/IT revenues across all segments Higher energy sales in Hungarian B2B segment 		
EBITDA	+3.0%	roughly stable	surpassing HUF 185bn
	<ul style="list-style-type: none"> Improved fixed and mobile broadband performance driven by higher ARPUs and larger customer base Higher SI/IT margin but lower margin levels Lower bad debts HUF 1 bn higher one-off severance payment (HUF 4.6 bn) compared to last year in Hungary more than offset by recurring core savings in employee related expenses 		
CAPEX	HUF 59.9bn	around HUF 105bn	around HUF 80bn
	<ul style="list-style-type: none"> Acceleration of Fixed High Speed Internet roll-out program in Hungary Continuing PSTN replacement and process simplifications Lower spending on Hungarian mobile networks than initially expected due to NW sharing agreement 		



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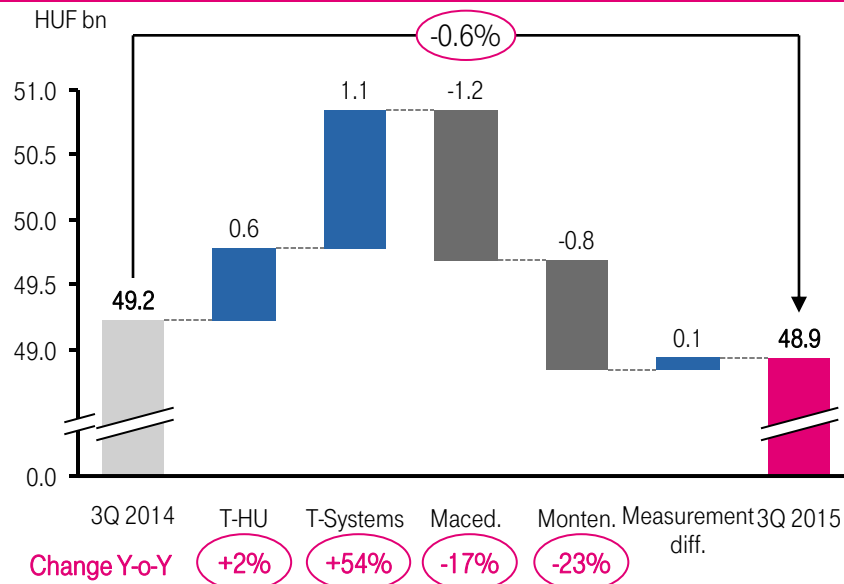
GROUP SEGMENTAL REVENUE AND EBITDA

Group segmental revenue



- **Telekom Hungary:** strong fixed and energy performance despite regulatory pressure on mobile IC
- **T-Systems:** boosted by outstanding SI/IT performance, revenue grew by 2% despite decline in mobile and fixed revenues
- **Macedonia:** slight decline in revenues due to lower mobile and fixed voice revenues, partly offset by strong SI/IT
- **Montenegro:** revenue decline due to intense competition and OTTs in mobile, and regulatory pressure on fixed revenue

Group segmental EBITDA

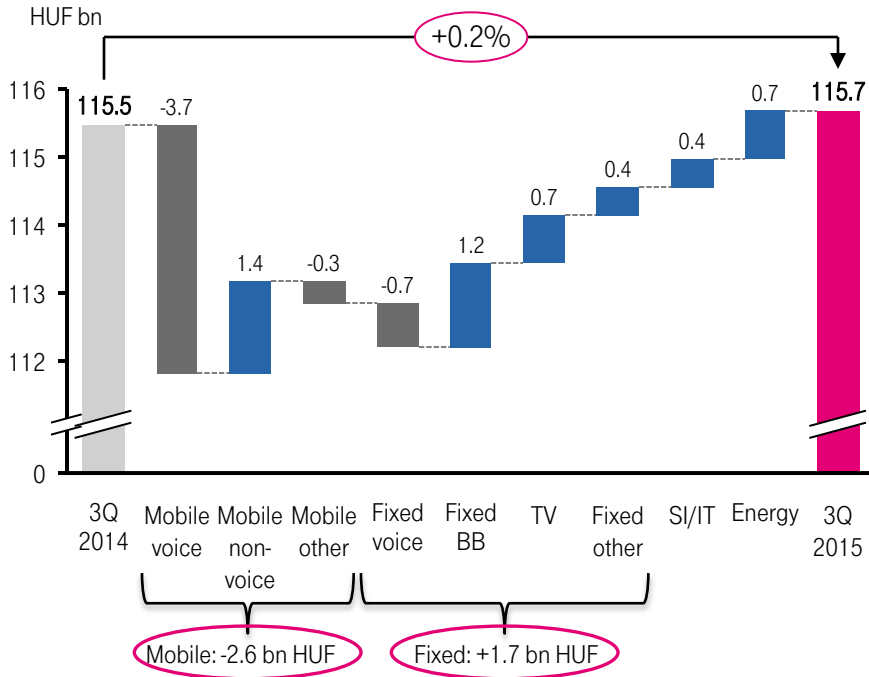


- **Telekom Hungary :** higher gross margins in fixed line coupled with savings in employee related expenses
- **T-Systems:** improved gross margin and lower employee related expenses lead to 4pp expansion in EBITDA margin, overall EBITDA 50% higher
- **Macedonia:** material EBITDA decrease due to significantly lower gross margin
- **Montenegro:** lower gross margin and outsourcing of technological functions lead to decline in EBITDA

SEGMENTAL OVERVIEW

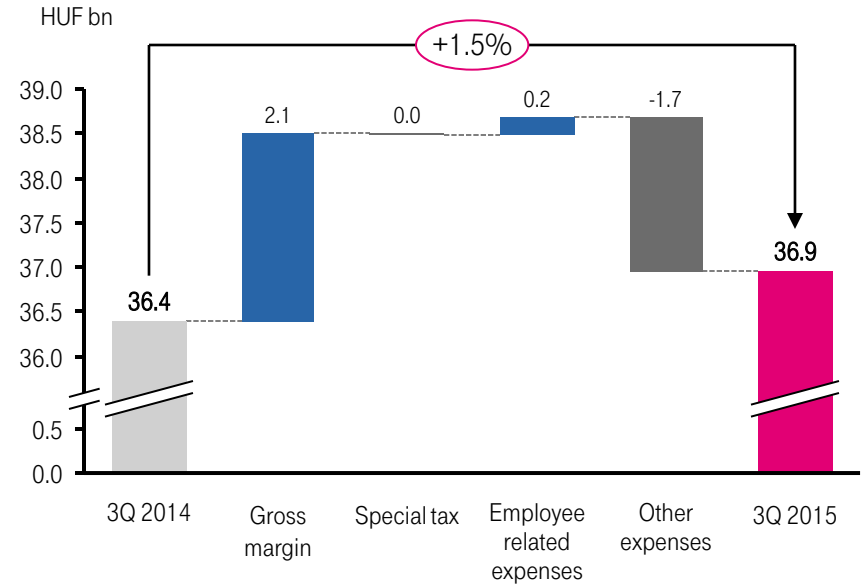
T-HUNGARY

T-Hungary revenue



- Strong mobile broadband growth due to 4G push
- MTR cut by 76% resulting in a HUF 4bn loss in revenues
- Significant growth in both fixed broadband and TV thanks to ever larger customer bases and higher ARPUs
- Higher fixed WS, data and SI/IT revenues due to GTS acquisition
- Higher energy revenues in B2B sub-segment partly offset by residential gas market exit

T-Hungary EBITDA

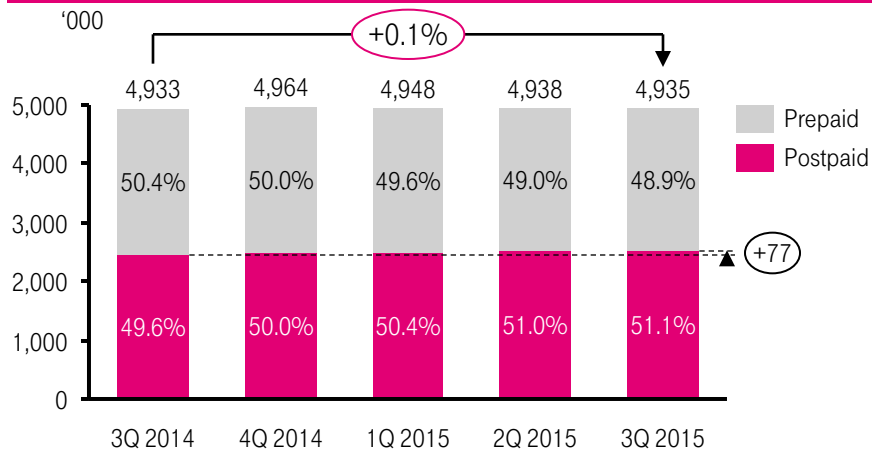


- Improvement in gross margin driven mostly by ARPU increases both in mobile (excl. MTR effect), fixed broadband and TV due to successful fixed line cross-sell and upgrade campaigns
- Further savings in employee-related expenses despite the ca. HUF 1.0 bn higher severance payment thanks to savings deriving from the headcount reduction program

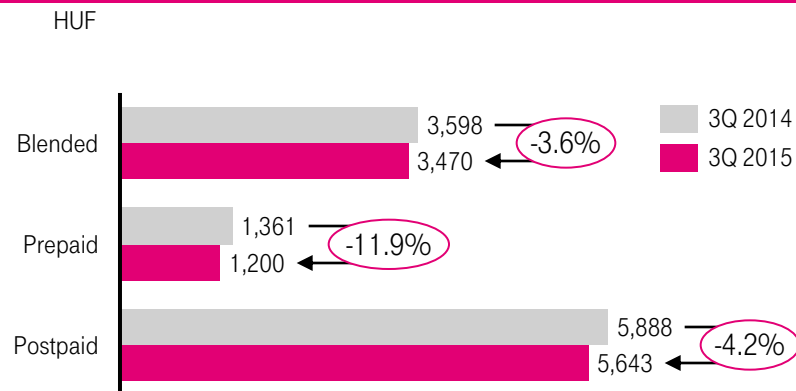
T-HUNGARY - MOBILE



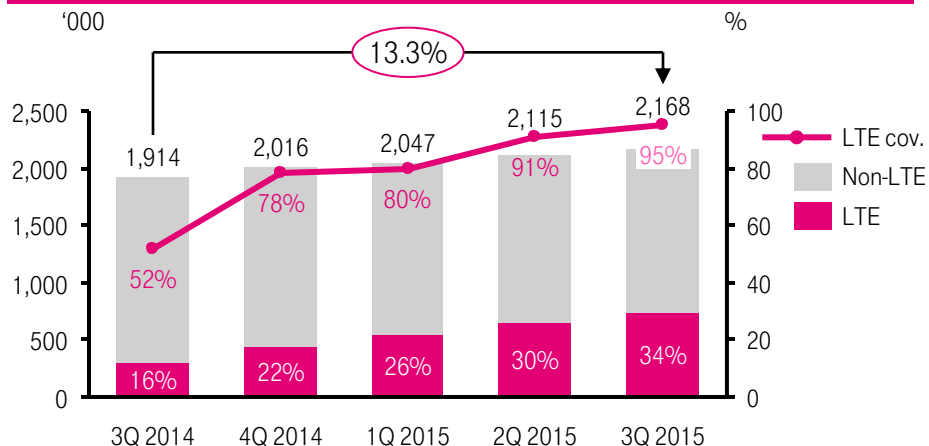
Mobile RPC



Mobile ARPU (HUF)



Mobile broadband development



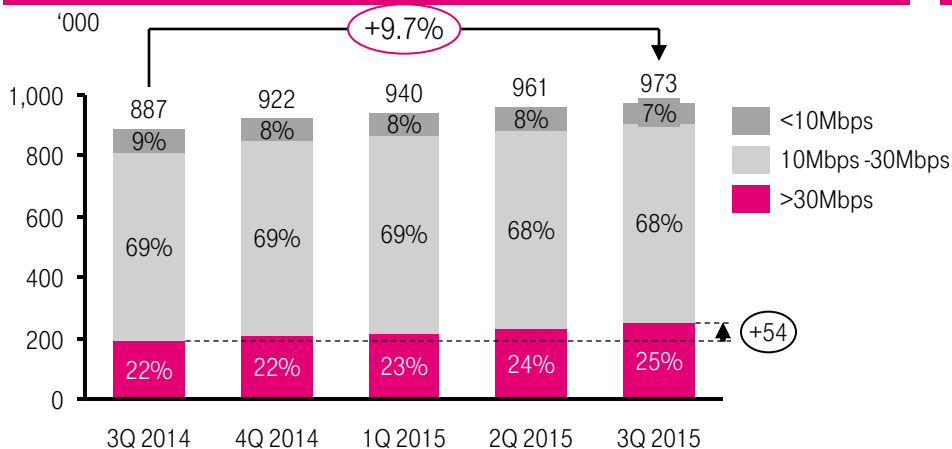
Highlights

- 3% increase in postpaid RPC driven by data hunger
- MOU increased by 8%, consistent with the growth in flat tariff subscriber base
- Decreasing ARPU due to sharp MTR cut (outgoing voice ARPU increased by 1%)
- 4G outdoor population coverage above 95%
- Smartphone sales account for over 90% of postpaid handsets
- 1.5 GB monthly traffic by average 4G user
- 14% higher total 4G traffic than 3G

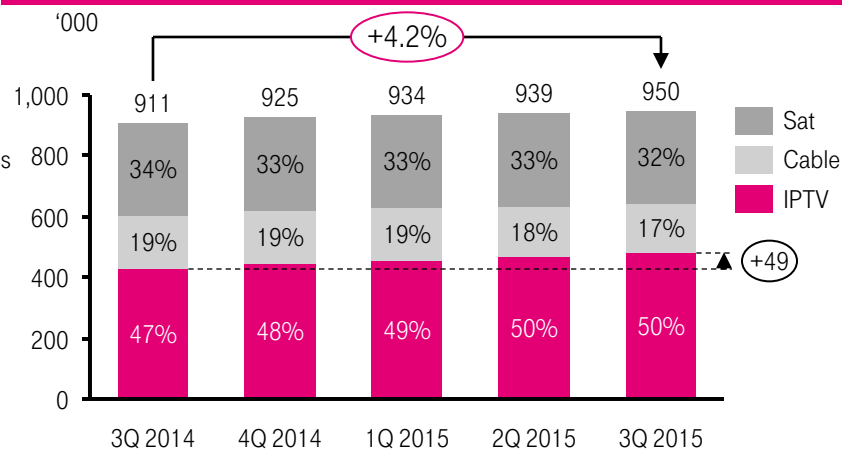
T-HUNGARY - FIXED BROADBAND AND TV



Fixed BB RPC

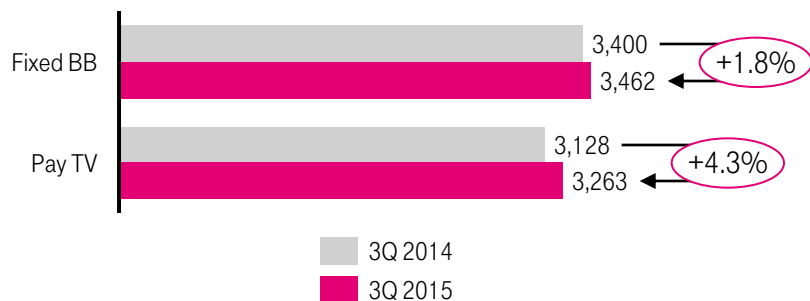


Pay TV RPC



Fixed BB and TV ARPU

HUF



Highlights

- 86 thousand broadband and 39 thousand TV net adds, which helped maintain leading market positions
- Increasing ratio of higher bandwidth packages due to upselling activities driven by network upgrades
- Focusing on IPTV to offer more value to our customers
- Higher ARPUs driven by upselling and price increase

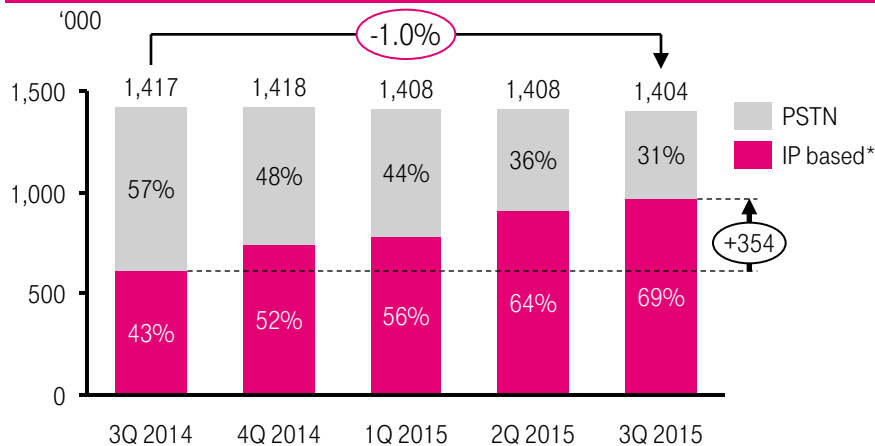


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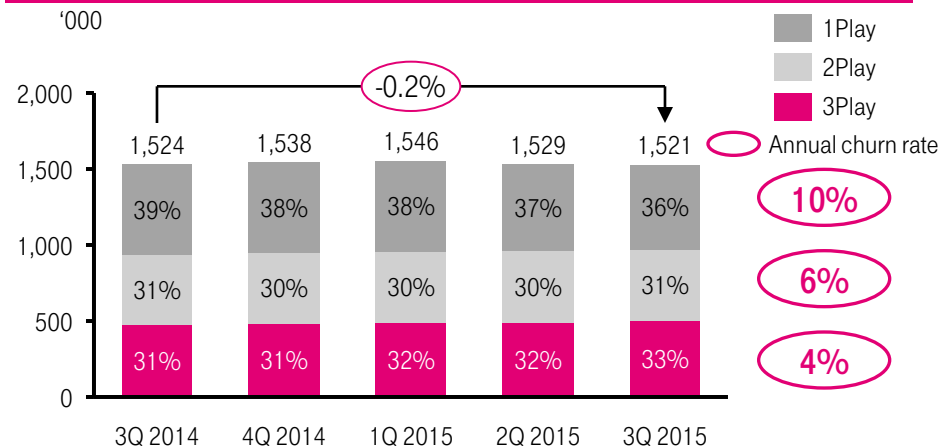
T-HUNGARY - FIXED VOICE, MULTIPLAY AND ENERGY



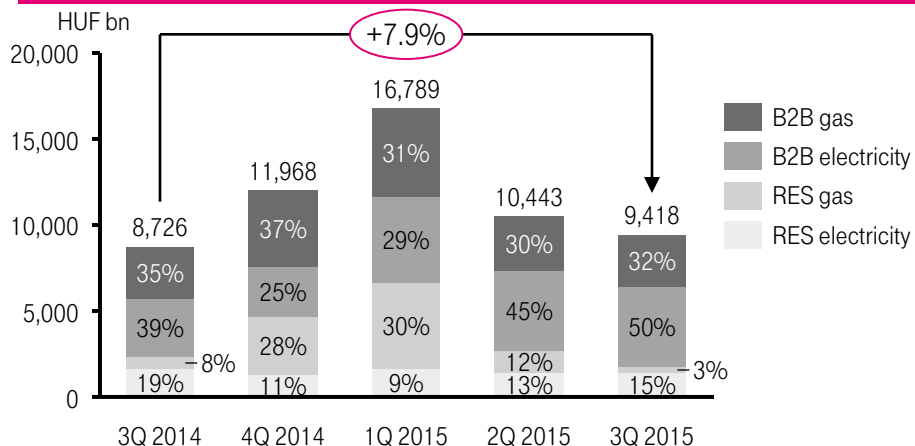
Fixed voice RPC



Multiplay development among residential customers



Energy revenues



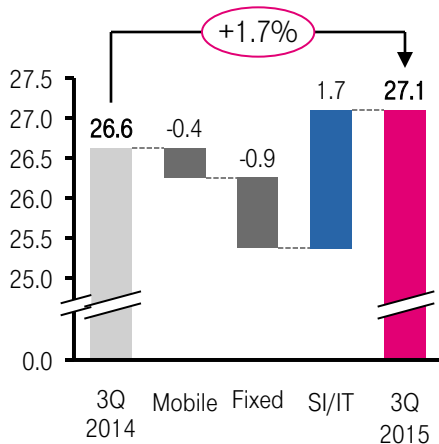
Highlights

- Fixed voice churn is 1% due to smart bundling strategy
- Fast IP based migration to strive for efficiency
- Fixed voice MOU is down by 3%, ARPU rate of decline at 4%
- Lower churn among 2/3play customers
- Launched our quad-play offer, called Magenta1 to offer the best selection of our services from one hand in order to maximize the telecommunication share of wallet in household spending
- Energy revenue growth driven by B2B sub-segment
- Exited from residential gas market with effect from July 31

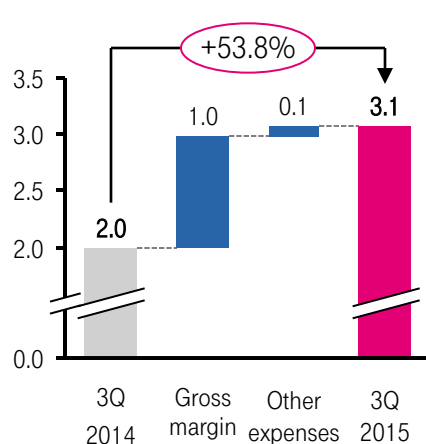
T-SYSTEMS

Financials

Revenues (HUF bn)

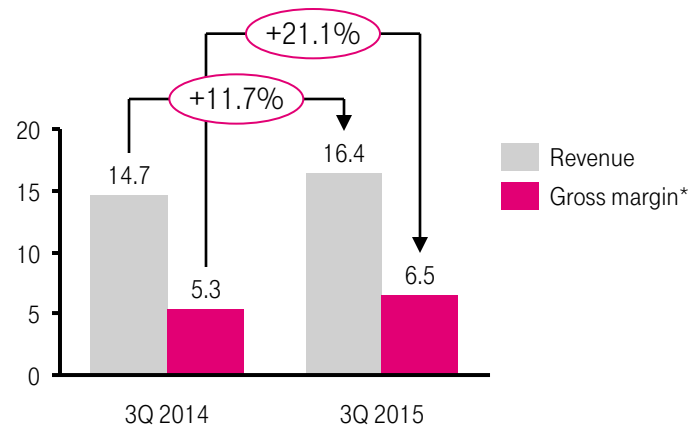


EBITDA (HUF bn)



SI/IT revenue and margin

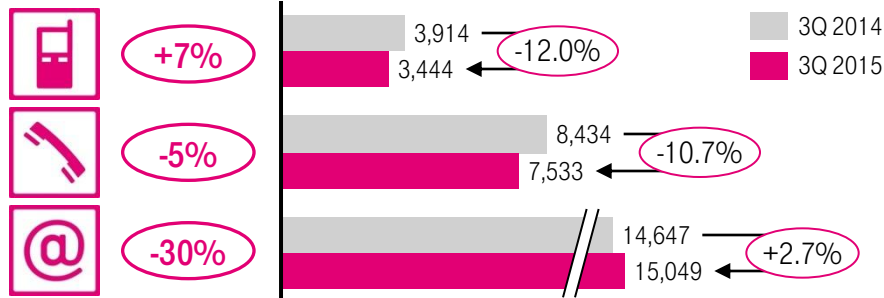
HUF bn



KPIs (mobile/fixed voice/fixed BB)

RPC QoQ change

ARPU (HUF)



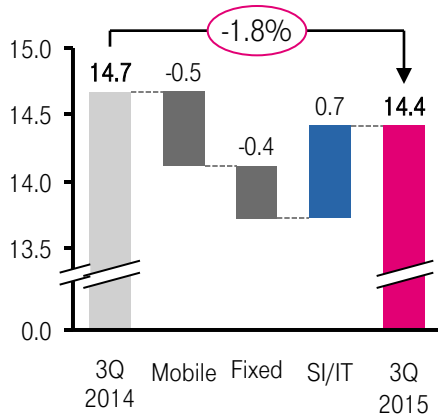
Highlights

- Total revenue increase boosted by outstanding IT performance compensating for decline in mobile and fixed revenues
- Lower mobile wholesale revenues and IC costs due to MTR cut
- Beyond 12% growth in SI/IT revenues, material improvement in total gross margin, as well as gross margin ratio
- EBITDA growth of 54% also driven by improving bad debt expense and savings in employee related costs
- Fierce competition lead to mobile voice and broadband ARPU erosion, however, customer base increased in both segments
- State-owned operator behind significant churn among government related broadband and fixed data customers

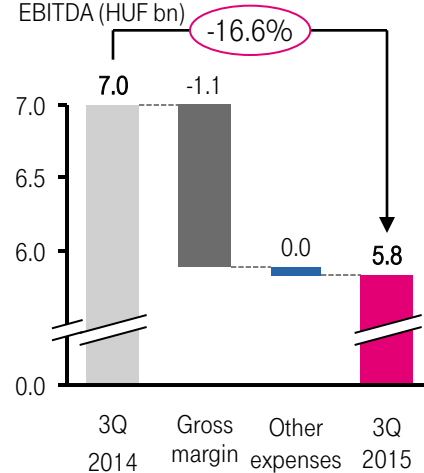
MACEDONIA

Financials

Revenues (HUF bn)

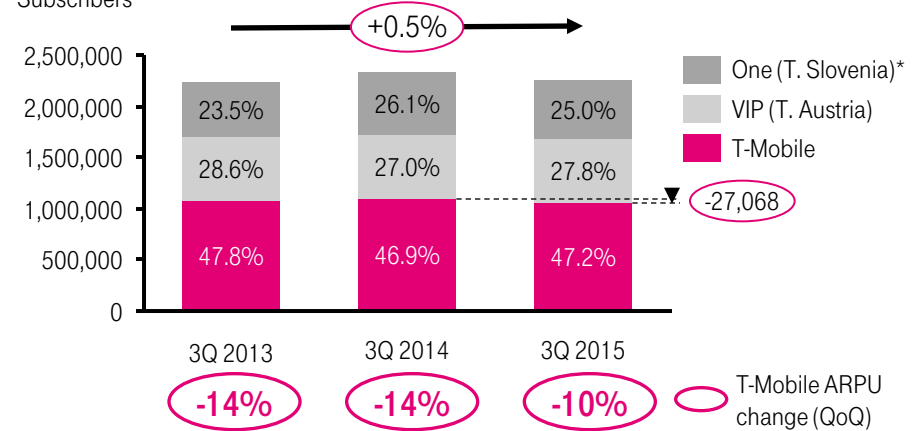


EBITDA (HUF bn)

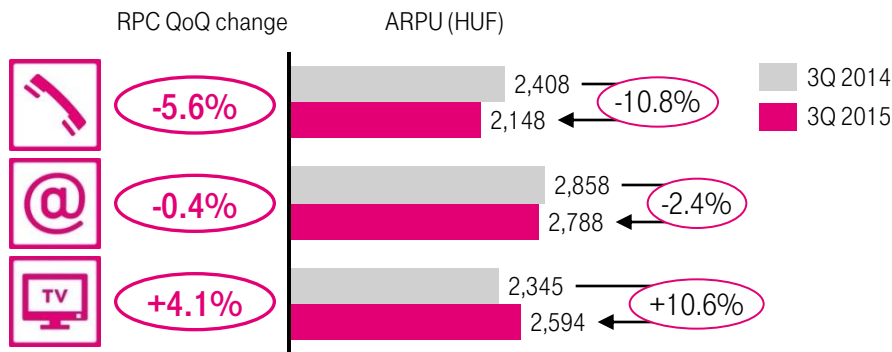


Mobile KPIs

Subscribers



Fixed KPIs (voice/BB/TV)



Highlights

- Rebranding campaign to integrated „T” and 4play Magenta1 launched following Maktel – T-Mobile Macedonia merger
- The market stabilization experienced in the first half of the year continued and is reflected by the slowdown in revenue decline
- VIP/One merger has created a strong integrated competitor
- Continuing strong SI/IT performance, slowdown in mobile voice ARPU decline and robust growth in TV ARPU and RPC



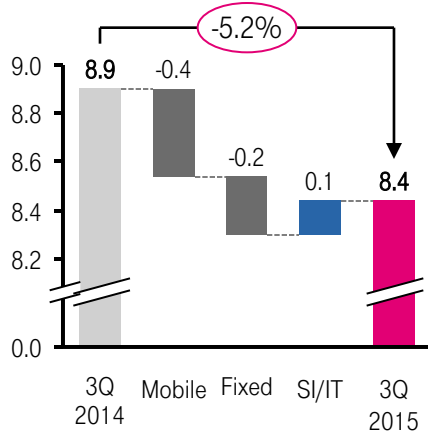
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* including Alfabone before June, 2015

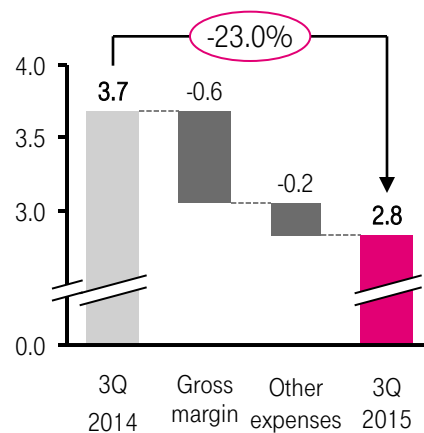
MONTENEGRO

Financials

Revenues (HUF bn)

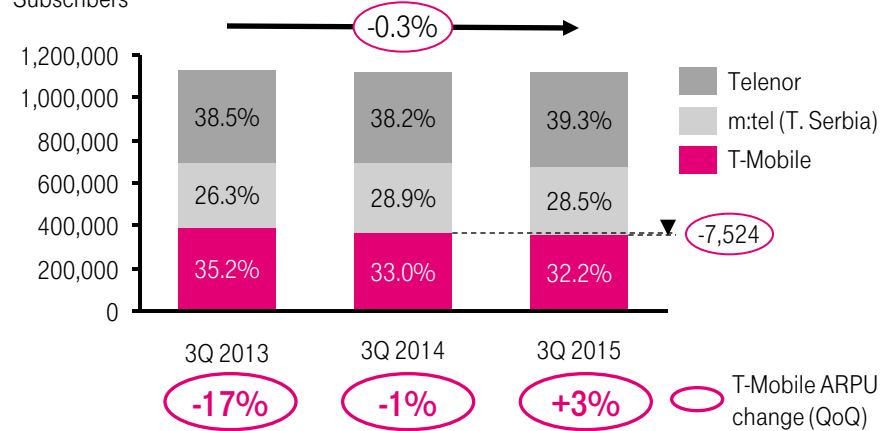


EBITDA (HUF bn)



Mobile KPIs

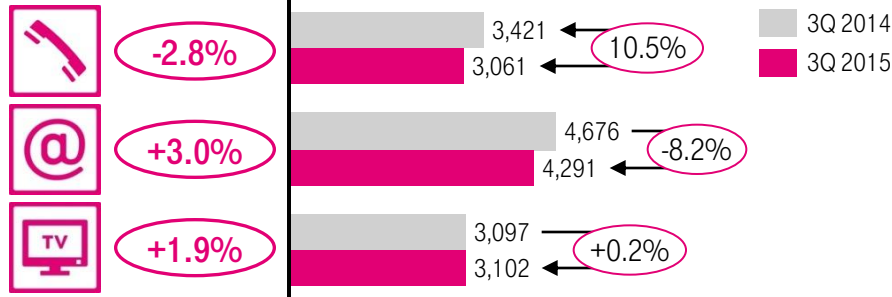
Subscribers



Fixed KPIs (voice/BB/TV)

RPC QoQ change

ARPU (HUF)



Highlights

- Revenue decline driven by lower mobile prepaid RPC, regulatory pressure on fixed voice and broadband businesses, as well as dwindling SMS revenues due to OTT push
- Reversed mobile ARPU decline into an increase due to improvement in customer quality (continued loss of low ARPU prepaid customers)
- Significant growth in SI/IT revenues due to increased number of ICT projects
- Steep EBITDA decline in line with revenue fall, lower gross margin and outsourcing of network operations

FINANCIALS

MAGYAR TELEKOM – CONSOLIDATED INCOME STATEMENT

HUF million	Q3 2014	Q3 2015	Change
Mobile revenues	82 718	79 105	-4,4%
Fixed line revenues	51 656	52 702	2,0%
System Integration/Information Technology revenues	14 404	16 781	16,5%
Revenue from energy services	8 726	9 418	7,9%
Revenues	157 504	158 006	0,3%
Direct costs	(54 395)	(53 761)	-1,2%
Employee-related expenses	(25 858)	(25 293)	-2,2%
Depreciation and amortization	(25 011)	(27 667)	10,6%
Hungarian telecommunications and other crisis taxes	(6 465)	(6 398)	-1,0%
Other operating expenses	(22 228)	(25 000)	12,5%
Total operating expenses	(133 957)	(138 119)	3,1%
Other operating income	663	1 374	107,2%
Operating profit	24 210	21 261	-12,2%
Net financial results	(6 640)	(7 146)	7,6%
Profit before income tax	17 579	14 115	-19,7%
Income tax expense	(5 759)	(3 522)	-38,8%
Profit for the period	11 820	10 593	-10,4%
Non-controlling interests	1 137	1 257	10,6%
Equity holders of the Company (Net income)	10 683	9 336	-12,6%



MAGYAR TELEKOM – CONSOLIDATED BALANCE SHEET

HUF million	Sept 30, 2014	Sept 30, 2015	Change
Current assets	191 891	204 194	6,4%
Cash and cash equivalents	12 460	17 113	37,3%
Other current financial assets	18 137	14 849	-18,1%
Non current assets	941 659	980 121	4,1%
Property, plant and equipment - net	481 879	480 666	-0,3%
Intangible assets	159 344	257 548	61,6%
Total assets	1 133 550	1 184 315	4,5%
Equity	518 940	543 406	4,7%
Current liabilities	367 616	287 298	-21,8%
Financial liabilities to related parties	103 469	65 691	-36,5%
Other financial liabilities	128 592	48 659	-62,2%
Non current liabilities	246 994	353 611	43,2%
Financial liabilities to related parties	192 972	297 317	54,1%
Other financial liabilities	24 007	55 671	131,9%
Total equity and liabilities	1 133 550	1 184 315	4,5%

MAGYAR TELEKOM – CONSOLIDATED CASH FLOW STATEMENT

HUF million	Sept 30, 2014	Sept 30, 2015	Change
Net cash generated from operating activities	98 094	106 993	9,1%
Investments in tangible and intangible assets	(53 633)	(59 929)	11,7%
Adjustments to cash purchases	(5 791)	(3 754)	-35,2%
Purchase of subsidiaries and business units	(1 156)	(16 428)	n.a.
Cash acquired through business combinations	0	1 815	n.a.
Payments for / proceeds from other financial assets - net	14 498	15 038	3,7%
Proceeds from disposal of subsidiaries	0	0	n.a.
Proceeds from disposal of PPE and intangible assets	2 262	1 006	-55,5%
Net cash used in investing activities	(43 820)	(62 252)	42,1%
Dividends paid to shareholders and minority interest	(6 705)	(6 369)	-5,0%
Net payments of loans and other borrowings	(34 492)	(23 012)	-33,3%
Repayment of other financial liabilities	(15 581)	(12 792)	-17,9%
Net cash used in financing activities	(56 778)	(42 173)	-25,7%
Free cash flow*	24 195	16 911	-30,1%

*Free cash flow defined as Net cash generated from operating activities plus Net cash used in investing activities, adjusted with Proceeds from / Payments for other financial assets and Repayment of other financial liabilities

For further questions please contact the IR department:

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DISCLAIMER

This investor presentation contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore should not have undue reliance placed upon them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our Annual Reports for the year ended December 31, 2014 available on our website at <http://www.telekom.hu>.

Abbreviations: 3G: third generation, 4G: fourth generation, ARPU: average revenue per user, BB: broadband, IP: internet protocol, IT: information technology, LTE: long term evolution, MOU: minutes of use, MTR: mobile termination rate, NRA: National Regulatory Authority, POD: points of delivery, R/E: real estate, RPC: revenue producing customer, SAC: subscriber acquisition cost, SRC: subscriber retention cost, SI: system integration, SIM: subscriber identity module, SMB: small and medium businesses, TWM: Total Workforce Management, VAS: value added services, VoCaTV: Voice over Cable TV, WS: wholesale

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Magyar Telekom's Investor Relations webpage at www.telekom.hu/investor_relations.



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